



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Legislative Fiscal Note

**Short Title:** Gross Premiums Tax/PHPs.  
**Bill Number:** House Bill 114 (Second Edition)  
**Sponsor(s):** Representatives Lambeth, Dobson, and Howard

### SUMMARY TABLE

FISCAL IMPACT OF H.B. 114, V.1 (\$ in millions)					
	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
<b>State Impact</b>					
General Fund Revenue	12.0	191.0	136.7	137.7	143.2
Less Expenditures	-	-	-	-	-
<b>General Fund Impact</b>	<b>12.0</b>	<b>191.0</b>	<b>136.7</b>	<b>137.7</b>	<b>143.2</b>
<b>NET STATE IMPACT</b>	<b>\$12.0</b>	<b>\$191.0</b>	<b>\$136.7</b>	<b>\$137.7</b>	<b>\$143.2</b>

### FISCAL IMPACT SUMMARY

HB 114 adds Prepaid Health Plans to the organizations that are subject to the gross premiums tax. Capitation payments for the Medicaid and NC Health Choice programs would be subject to the 1.9% gross premiums tax. The bill results in additional revenue to the General Fund ranging from a partial year impact of \$12 million in FY 2019-20 to \$191 million in FY 2020-21.

### FISCAL ANALYSIS

#### Gross Premiums Tax

Estimated payments for gross premiums tax are made on a calendar year basis in April, June and October. The payments are based on tax liability for the previous year. A final payment or refund is due in March of the subsequent year for any remaining tax liability or overpayment.

The Department of Health and Human Services (DHHS) published estimates of capitation payments in the Request for Proposals (RFP) for the Prepaid Health Plan. The estimated capitation payments are shown in the table below. The tax revenue estimates reflect the 1.9% tax rate applied to the capitation payments. The timing of tax payments is based on the schedule for estimated and final payments.

Beneficiary Groups	Capitation Payments (\$ Millions)					
	Aged, Blind, and Disabled	\$ 126	\$ 2,096	\$ 2,303	\$ 2,396	\$ 2,492
New Born (<1 year)	\$ 36	\$ 574	\$ 630	\$ 655	\$ 681	\$ 709
Child (1-20 years)	\$ 120	\$ 1,885	\$ 2,067	\$ 2,151	\$ 2,237	\$ 2,327
Adult (21+ years)	\$ 67	\$ 1,139	\$ 1,252	\$ 1,303	\$ 1,355	\$ 1,410
Maternity Event Payment	\$ 30	\$ 490	\$ 538	\$ 560	\$ 583	\$ 606
<b>TOTAL</b>	<b>\$ 379</b>	<b>\$ 6,184</b>	<b>\$ 6,791</b>	<b>\$ 7,064</b>	<b>\$ 7,349</b>	<b>\$ 7,645</b>
			Source: DHHS Prepaid Health Plan RFP (Aug 2018)			

The tax revenue estimate for FY 2019-20 reflects a partial implementation of the PHP program in 2 of 6 regions of the State in November 2019, as well as estimated payments in 2020 that are based on 2 months of collections for 2019. The estimate for FY 2020-21 reflects large final payments in March 2021 to off-set the low 2020 estimated payments. Tax revenue for subsequent years reflects estimated payments based on a full year of tax liability, 1% population growth, and 3% growth in capitation payments.

### Insurance Regulatory Charge

The Insurance Regulatory Charge is applied to gross premiums tax liability and is used to pay expenses related to regulating the insurance industry. The rate is set each year by the General Assembly based on the amount of revenue needed to offset the operating costs of the Department of Insurance. The current rate is 6.5%. The additional gross premiums tax revenue generated by this bill will be taken into consideration when determining the rate necessary to fund Departmental operations for the upcoming year.

### TECHNICAL CONSIDERATIONS

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N/A.

### DATA SOURCES

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NC Dept. of Health and Human Services

### LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

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This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

### CONTACT INFORMATION

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Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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